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## CURRENT SUPPORT BRIEF

ECONOMIC DEVELOPMENTS IN POLAND IN 1959 AND PROSPECTS  
FOR 1960

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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ECONOMIC DEVELOPMENTS IN POLAND IN 1959 AND PROSPECTS  
FOR 1960

During most of 1959, domestic expenditures for investment and consumption in Poland increased much more rapidly than planned. On the other hand, the national product grew less rapidly than planned, because of a decline in agricultural production. The resulting economic strains forced the regime to reduce both capital investments and personal consumption toward the end of the year. In spite of this retrenchment the foreign trade deficit increased greatly in 1959. These economic difficulties, however, did not prevent a substantial growth of industrial production.

According to plans for 1960, the strains on domestic resources and the foreign trade deficit both are to be reduced by slowing down appreciably the rate of growth of domestic expenditures, while maintaining a fairly rapid increase in industrial production. Starting in the final months of 1959 and continuing during the early months of 1960, work norms have been raised and surplus workers laid-off in numerous industrial enterprises. These measures, which are intended to stimulate labor productivity during a year in which industrial wage payments are to be expanded only slightly, have led to increased worker discontent. However, the regime probably will not risk a serious rise in popular dissatisfaction; and, if it becomes politically necessary, the regime probably will be able to increase real wages faster than originally planned by utilizing such "reserves" as the recently negotiated US credit.

Plans for 1959

The relatively smooth functioning of the Polish economy in 1958 apparently had made the regime very optimistic about prospects for economic growth in 1959. Under the 1959 Plan, gross capital investments were to increase by 12 percent and personal consumption by 7 percent, compared to increases of 11 and 3 percent, respectively, claimed for 1958\*. To provide for this simultaneous rapid growth of capital investments and consumption, the rate of growth of the national product was to be stepped up from 5½ to 6 percent, the growth of inventories were to be held considerably below the 1958 level, and the foreign trade deficit was to be allowed to increase.

During the course of 1959, however, new strains in the economy became evident. These strains arose, in large measure, because the regime had planned too ambitiously for the expenditure of available resources and because the existing framework of relatively loose economic controls permitted deviations from the expected timing and distribution of domestic expenditures. Inventories and, for most of the year, capital investments increased considerably in excess of plans, largely because of inadequate financial controls over state enterprises. In turn, this rapid expansion of investment expenditures and inadequate controls over wages led to an increase in the money incomes of the urban population at a much faster pace than had been planned.

The inflationary pressure of this above-plan expansion of urban incomes was greatly exacerbated by difficulties in agricultural production which led to a drop in meat supplies, and consequently in

\* The statistical data in the text of this memorandum are based on official Polish reports which are listed on p. 5.

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personal consumption. During 1958 a large increase in meat supplies had been a key factor in the stabilization of the domestic retail market, after years of general shortage; and the drop in meat supplies in 1959 led to the reappearance of long queues for food and considerable black market activity.

The regime delayed resolute action until October, although evidences of inflationary strains in the economy should have been apparent months earlier. Retail meat prices were sharply increased, thereby more nearly balancing demand with supply in the retail market. Other deflationary measures included a reduction of capital investments, the freezing of wage rates, the curtailment of bonuses and overtime payments, and some reduction in the level of industrial employment. To help implement these measures, central controls over investments and wages were tightened. Steps were also taken to increase food supplies through increased incentives for domestic production and through enlarged imports.

#### Plan Fulfillment in 1959

In spite of the difficulties encountered in the course of the year, the Polish economy continued to grow at a substantial rate in 1959. Industrial production reportedly increased by 9 percent\* and labor productivity in industry by more than 7 percent, in both instances larger gains than had been planned. As a result, the national product grew by about 5 percent, despite a decline of 1.3 percent in agricultural production.

However, domestic expenditures in 1959 exceeded the plan and were not distributed as the regime had wished. The growth of inventories was reduced by only 8 percent, compared to a scheduled reduction of about 30 percent. Although gross capital investments rose by almost 15 percent--more than in any year since 1953--the inadequately controlled growth of small-scale decentralized investments by state enterprises forced up the costs and extended the time schedules for construction of high priority industrial projects. Lastly, most of the reported 6 percent increase in personal consumption--a much larger gain than in 1958--occurred early in the year, and the forced reduction of consumption toward the end of the year led to increased popular dissatisfaction and anxiety.

Because domestic expenditures were larger than planned, whereas the growth of national product was smaller than planned, the regime allowed an increase in the foreign trade deficit greatly in excess of plans. The deficit--which also was affected by a decline in the free world prices for Polish exports--rose by 63 percent in current prices, compared to a projected increase of only 19 percent. Additional credits from the US in 1959 somewhat eased Poland's balance of payments difficulties, which were greatest in trade with Western countries. Nevertheless, the share of the West in Poland's foreign trade declined in 1959.

#### Prospects for 1960

The inflationary strains of 1959 should not recur in 1960, principally because the planned rate of growth of domestic expenditures has been sharply reduced and also because more effective

\* If Polish industrial production were to be measured in the same way as in Western countries, the increase in production probably would have been closer to 7 or 8 percent.

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controls over the distribution of expenditures have been introduced. Gross capital investments are to increase by 6½ percent and personal consumption only by an insignificant amount. At the same time the national product probably will continue to grow fairly rapidly. Provisional plans for raising agricultural production by 4 percent in 1960 may have been jeopardized by drought conditions during the planting of winter crops. On the other hand, plans for expanding industrial production by 7½ percent appear to be realistic, or even conservative, considering achievements in 1957-59 and the numerous opportunities which still exist for gains in labor productivity through improvements in the organization of production and through simple technological advances. The difference between the growth of the national product and the growth of domestic expenditures is to be used to reduce the deficit in foreign trade.

In recent months, work norms have been raised in numerous industrial enterprises in order to stimulate the growth of labor productivity both in 1960 and in the next five-year plan (1961-65). The raising of norms, however, does not constitute a general change in the system of wages, and does not solve some of the other problems of economic administration in Poland, in particular the problems of incentives to producers for reducing the cost of materials, saving on the use of capital assets, and producing the right assortment of goods. A general revision of wages together with a reform of the price system may be introduced in 1961. Strong attempts are also currently being made to reduce overstaffing in branches of industry and construction; but alternative, if less desirable, opportunities for employment exist for most displaced workers.

The raising of work norms during a period when average wages are being kept relatively stable is proving difficult. The earnings of some workers have been reduced; and this development together with decreased job security, is breeding worker dissatisfaction. However, the regime cannot afford to permit a widespread increase in popular discontent and a considerable reserve probably will be made available for raising real wages at a faster rate than planned if domestic political conditions should require it. Such flexibility on the part of the regime in 1960 is due in large measure to the new credit arrangement recently concluded with the US, which makes part of the planned cut in the foreign trade deficit unnecessary and may thereby free additional resources for consumption.

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Analyst: [REDACTED]

Sources:

1. Monitor Polski, No. 95, 13 Mar 59; No. 104, 31 Dec 59. U.
2. [REDACTED]
3. [REDACTED]
4. Zycie Gospodarcze, 24 Jan 60, Translated in State, Warsaw.  
Desp 308, 3 Feb 60. OFF USE.

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*[Handwritten signature]*

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